

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Durand	County Shiawassee
Audit Date 6/30/04	Opinion Date 10/13/04	Date Accountant Report Submitted to State: 12/22/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements, (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 156 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Stewart, Beauvais & Whipple

Street Address

1979 Holland Ave.

City

Port Huron

State

Mi

ZIP

48060

Accountant Signature

Stewart, Beauvais & Whipple

Date

12-22-04

CITY OF DURAND, MICHIGAN

ANNUAL FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2004**

**Stewart,
Beauvais
& Whipple P.C.**

CERTIFIED PUBLIC ACCOUNTANTS



CITY OF DURAND, MICHIGAN

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CITY OF DURAND, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Durand, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Durand, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Durand's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 14 to the basic financial statements, the City and its component unit adopted Governmental Accounting Standards Board Statement No. 34 and related statements as of and for the year ended June 30, 2004. This resulted in a change in the City's basic financial statement format and content.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2004 on our consideration of the City of Durand's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7, and budgetary comparisons on pages 40 through 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Durand's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Brewster & Whipple
Certified Public Accountants

October 13, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Durand's 2004 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the City's net assets and how they have changed. Net assets, defined as the difference between the City's assets and liabilities, are one way to measure the City's financial health or position.

The government-wide financial statements of the City are divided into two categories:

Governmental activities – most of the City's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, charges for services, and most of the funding.

Business-type activities – the City charges fees to customers to help it cover the costs of certain services it provides. The City's water, sewer and refuse operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds; not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental funds - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City currently has 14 governmental funds.

Proprietary funds -- Proprietary funds use the accrual basis of accounting, which is the same basis used by the private businesses. The City maintains two different types of proprietary funds.

Enterprise Funds -- are used to report services for which the City charges customers a fee for those services. The City has three enterprise funds, the Water, Sewer and Refuse Funds.

Internal Service Funds -- reports activities that provide services and supplies to other City programs. The City utilizes a Motor Pool internal service fund.

Fiduciary Funds -- Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's operations. The City has two fiduciary funds, the Employee Benefits Trust Fund and the Tax Agency Fund.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The City has combined total net assets of 9.6 million. This is an increase of \$146,932 over 2003. Government-type activities comprise \$2.8 million, and business-type activities make up \$6.8 million of the total net assets. In a condensed format, the table below shows net asset as of the June 30, 2004. Future reports will provide comparative data.

	Governmental Activities	Business-type Activities	Total
In Thousands			
Assets			
Current assets	\$ 1,335	\$ 244	\$ 1,579
Restricted assets	43	163	206
Capital assets	<u>4,288</u>	<u>7,735</u>	<u>12,023</u>
Total assets	<u>5,666</u>	<u>8,142</u>	<u>13,808</u>
Liabilities			
Current liabilities	72	48	120
Long-term liabilities	<u>2,822</u>	<u>1,279</u>	<u>4,101</u>
Total liabilities	<u>2,894</u>	<u>1,327</u>	<u>4,221</u>
Net Assets			
Invested in capital assets --			
Net of related debt	1,469	6,386	7,855
Restricted	251	178	429
Unrestricted	<u>1,052</u>	<u>251</u>	<u>1,303</u>
Total net assets	<u>\$ 2,772</u>	<u>\$ 6,815</u>	<u>\$ 9,587</u>

The City's governmental activities experienced a net change in assets of \$204,643. The main reason is a result of budgeted capital purchases and various cost containments by the City. The business-type activities experienced a decrease in net assets of \$(57,711), which is approximately 4% of annual expenses.

The following table shows the changes in net assets for 2004. Future reports will provide comparative data.

In Thousands	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 77	\$ 1,254	\$ 1,331
Operating grants and contributions	272	-	272
Capital grants and contributions	69	-	69
General revenue:			
Property taxes	1,246	-	1,246
State-shared revenue	535	-	535
Unrestricted investment earnings	19	3	22
Franchise fees	28	-	28
Total Revenue	<u>2,246</u>	<u>1,257</u>	<u>3,503</u>
Program Expenses			
General government	473	-	473
Public safety	728	-	728
Public works	581	-	581
Health and welfare	119	-	119
Interest on long-term debt	130	-	130
Water	-	461	461
Sewer	-	675	675
Refuse	-	179	179
Total Program Expenses	<u>2,031</u>	<u>1,315</u>	<u>3,346</u>
Changes in net assets before transfers	215	(58)	157
Transfer to component unit	(10)	-	(10)
Changes in net assets	<u>\$ 205</u>	<u>\$ (58)</u>	<u>\$ 147</u>

Governmental Activities

Revenues for governmental activities totaled \$2.2 million in 2004. Of this amount \$1.2 million or 55% was received from taxes followed by state Shared Revenue of 24%.

Business-type Activities

The City has three business-type activities, water, wastewater and refuse operations. The City operates its own water and sewage treatment facility and contracts for refuse collections. The water, wastewater and refuse services funds had an net increase (decrease) in net assets of \$(33,307), \$(30,299) and \$5,895, respectively.

FINANCIAL ANALYSIS OF MAJOR FUNDS

The general fund ended 2004 with a fund balance of \$709,012, of which \$157,213 was reserved for specific purposes, with the remaining amount of \$551,799 unreserved and undesignated. This is a decrease of \$105,168 for the prior year. The General Fund expenses were over revenues for fiscal year end June 30, 2004. State shared revenue was \$40,000 under the projected budget. A carry forward of \$50,000 was budgeted, because revenues would not meet expenditures and a reduction in fund balance would be needed to cover the short fall to avoid cutting services to the community.

The City's other major fund, the Major Street Fund ended 2004 with a fund balance of \$161,367 and increase of \$78,506. The Major Street revenues were over expenses because money was set aside for the Main Street project to be completed in the 2005-06 fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. During the significant budget amendments were made in the following areas:

General Fund

- Revenue from State Shared source was decrease from \$608,000 to 568,750 to reflect the revenue sharing cuts made by the State.
- The Fire Department budget was amended by \$12,000 and the General Administration was increased to provide funds needed for operating transfers.
- Transfer to other funds were amended from \$0 to \$15,900. An operating transfer was made to the Building Fund to avoid a deficit for permit revenues that did not keep up with expenses. During the remodeling of the Fire Hall, it was discovered the Fire Hall needed a new roof and a transfer was made to provide for the expense in the Fire Hall Project fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City had \$12.0 million dollars invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2004. The investment in capital assets includes, land, building and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g. roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the City added approximately \$137,000 of capital assets before taking into account depreciation. Depreciation for the year was \$463,306. The following table shows the capital assets at June 30, 2004:

In Thousands	Governmental Activities	Business-type Activities
Land	\$ 1,003,610	\$ 151,400
Building and improvements	3,290,837	3,784,514
Machinery and equipment	854,875	81,917
Vehicles	905,462	-
Infrastructure	207,618	-
Water and sewer systems	-	8,550,935
Construction in progress	-	24,076
	6,262,402	12,592,842
Accumulated depreciation	(1,974,741)	(4,857,502)
	<u>\$ 4,287,661</u>	<u>\$ 7,735,340</u>

Long-term Debt

At June 30, 2004 the City had \$4,101,186 in long-term debt compared to \$4,305,508 at June 30 2003. There were no additions to long-term debt during the year. The following table shows the capital assets at June 30, 2004:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General Obligation Bonds	\$ 2,765,000	\$ -
Revenue Bonds	-	1,275,000
Installment Loans	54,045	-
Compensated Absences	<u>2,731</u>	<u>4,410</u>
	<u>\$ 2,821,771</u>	<u>\$ 1,279,410</u>

In addition the City funds compensated absences earned in governmental funds in the Employee Benefit Fund, the long-term liability amounted to \$35,463.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The City of Durand, similar to most municipalities in the State of Michigan continues to experience difficult financial times. The City currently levies the maximum amount of property taxes allowed under Proposal A and the Headlee Amendment, and has experienced reduction in state revenue sharing in an amount exceeding \$100,000 in recent years. While little or no growth has been experienced in the revenues, most expenditures continue to grow at the rate of inflation or higher (in the case of healthcare insurance expenditures). The City has responded to this imbalance between revenues and expenditures through a reduction of discretionary costs, principally capital outlay. The City expects this financial trend to continue into the near future.

In September of 2004, the City purchased 195 acres of undeveloped property for \$490,000. The City is currently working with the City planners and a developer to create a mixed-use development. It is expected that this development will eventually lead to an increase in population and an expansion of the City's tax base.

CONTACTING THE CITY'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, we invite you to contact the City of Durand administration at City Hall (989) 288-3113.

BASIC FINANCIAL STATEMENTS

CITY OF DURAND, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	DDA
ASSETS:				
Cash and cash equivalents	\$ 841,427	\$ 31,311	\$ 872,738	\$ 56,912
Investments	1,147	-	1,147	-
Receivables	357,046	241,121	598,167	22
Prepaid expenses	52,540	5,103	57,643	-
Advance to (from) other funds	74,481	(74,481)	-	-
Inventory	8,517	40,545	49,062	-
Restricted Assets -				
Cash and cash equivalents	42,608	32,449	75,057	-
Investments	-	130,652	130,652	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	1,003,610	175,476	1,179,086	-
Assets being depreciated	3,284,051	7,559,864	10,843,915	182,160
Total Assets	<u>5,665,427</u>	<u>8,142,040</u>	<u>13,807,467</u>	<u>239,094</u>
LIABILITIES:				
Payables and accrued liabilities	57,717	36,919	94,636	998
Accrued interest	10,529	-	10,529	538
Due to other governmental units	3,621	-	3,621	6,011
Deposits	-	10,540	10,540	-
Non-current liabilities				
Due within one year	117,644	65,000	182,644	20,000
Due in more than one year	2,704,132	1,214,410	3,918,542	95,000
Total Liabilities	<u>2,893,643</u>	<u>1,326,869</u>	<u>4,220,512</u>	<u>122,547</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	1,468,616	6,385,859	7,854,475	67,160
Restricted				
Acquisition/construction of capital assets	8,674	-	8,674	-
Debt service	79,395	163,101	242,496	-
Well head protection	-	15,000	15,000	-
Other	37,653	-	37,653	12,015
Unrestricted	<u>1,177,446</u>	<u>251,211</u>	<u>1,428,657</u>	<u>37,372</u>
Total Net Assets	<u>\$ 2,771,784</u>	<u>\$ 6,815,171</u>	<u>\$ 9,586,955</u>	<u>\$ 116,547</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 473,273	\$ 42,330		\$ -
Public Safety	727,505	27,774	9,373	-
Public Works	581,003	40	262,963	29,870
Recreation and Culture	118,974	7,100	-	39,491
Interest on Long Term Debt	130,080	-	-	-
Total governmental activities	<u>2,030,835</u>	<u>77,244</u>	<u>272,336</u>	<u>69,361</u>
Business type activities:				
Water Supply System	460,687	427,259	-	-
Wastewater	674,917	642,058	-	-
Refuse Services	179,212	185,081	-	-
Total business type activities	<u>1,314,816</u>	<u>1,254,398</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>3,345,651</u>	<u>1,331,642</u>	<u>272,336</u>	<u>69,361</u>
Component Unit				
Downtown Development Authority	61,308	-	18,559	-
Total Component Units	<u>61,308</u>	<u>-</u>	<u>18,559</u>	<u>-</u>
General revenues:				
Taxes				
Property taxes levied for general purposes				
Property taxes levied for streets				
Property taxes levied for debt purposes				
Grants and contribution not				
restricted to specific programs				
Sales taxes				
Franchise fees				
Other				
Unrestricted investment income				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year as restated				
Net assets at end of year				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Governmental Activities	Primary Government		Component Unit DDA
	Business Type Activities	Total	
\$ (430,943)	\$ -	\$ (430,943)	\$ -
(690,358)	-	(690,358)	-
(288,130)	-	(288,130)	-
(72,383)	-	(72,383)	-
(130,080)	-	(130,080)	-
(1,611,894)	-	(1,611,894)	-
-	(33,428)	(33,428)	-
-	(32,859)	(32,859)	-
-	5,869	5,869	-
-	(60,418)	(60,418)	-
(1,611,894)	(60,418)	(1,672,312)	-
-	-	-	(42,749)
-	-	-	(42,749)
960,193	-	960,193	-
85,820	-	85,820	-
199,462	-	199,462	39,633
534,805	-	534,805	-
27,629	-	27,629	-
-	-	-	6,695
18,628	2,707	21,335	256
(10,000)	-	(10,000)	10,000
1,816,537	2,707	1,819,244	56,584
204,643	(57,711)	146,932	13,835
2,567,141	6,872,882	9,440,023	102,712
\$ 2,771,784	\$ 6,815,171	\$ 9,586,955	\$ 116,547

CITY OF DURAND, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Major Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets:				
Cash and cash equivalents	\$ 304,197	\$ 127,213	\$ 210,187	\$ 641,597
Investments	1,147	-	-	1,147
Receivables -				
Interest and accounts	15,811	-	-	15,811
Special assessments	-	-	24,729	24,729
Prepayments and deposits	39,641	-	-	39,641
Due from other governmental units -				
Federal/State	173,616	30,725	112,165	316,506
Due from other funds	100,052	-	21,834	121,886
Advance to other funds	74,481	-	-	74,481
Inventories	483	3,429	2,780	6,692
Restricted Assets -				
Cash and cash equivalents	42,608	-	-	42,608
Total Assets	<u>\$ 752,036</u>	<u>\$ 161,367</u>	<u>\$ 371,695</u>	<u>\$ 1,285,098</u>
Liabilities:				
Accounts payable	\$ 21,339	\$ -	\$ 500	\$ 21,839
Accrued liabilities	10,897	-	190	11,087
Due to other governmental units	-	-	3,621	3,621
Due to other funds	10,788	-	111,098	121,886
Deferred revenue	-	-	20,021	20,021
Total Liabilities	<u>43,024</u>	<u>-</u>	<u>135,430</u>	<u>178,454</u>
Fund Balances:				
Reserved -	157,213	3,429	90,849	251,491
Unreserved -				
Undesignated -				
General Fund	551,799	-	-	551,799
Special Revenue Funds	-	157,938	145,416	303,354
Total Equity	<u>709,012</u>	<u>161,367</u>	<u>236,265</u>	<u>1,106,644</u>
Total Liabilities and Fund Equity	<u>\$ 752,036</u>	<u>\$ 161,367</u>	<u>\$ 371,695</u>	<u>\$ 1,285,098</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2004

Fund Balances - total governmental funds		\$	1,106,644
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			4,628,819
Accumulated depreciation		(901,170)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			
Special Assessments			20,021
Internal Service Fund used by management to charge cost of the City's equipment revolving activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			692,999
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Bonds payable	(2,765,000)	
Accrued interest	(10,529)	(
			2,775,529)
Net Assets of governmental activities		\$	<u>2,771,784</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DURAND, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	General	Major Street	Other Governmental Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 992,994	\$ -	\$ 285,282	\$ 1,278,276
Licenses and permits	29,871	-	8,157	38,028
Intergovernmental -				
Federal/State	534,805	180,942	82,021	797,768
Charges for services	21,432	-	-	21,432
Fines and forfeits	12,572	-	-	12,572
Interest and rent	17,595	141	892	18,628
Special assessment	-	-	15,634	15,634
Other	44,176	40	4,688	48,904
Total Revenues	<u>1,653,445</u>	<u>181,123</u>	<u>396,674</u>	<u>2,231,242</u>
Expenditures:				
Current -				
General Government	496,375	-	-	496,375
Public Safety	675,832	-	18,430	694,262
Public Works	426,443	80,262	104,769	611,474
Recreation and Cultural	85,033	-	2,943	87,976
Capital Outlay	-	-	15,728	15,728
Debt Service				
Principal	-	-	95,000	95,000
Interest	-	-	130,345	130,345
Total Expenditures	<u>1,683,683</u>	<u>80,262</u>	<u>367,215</u>	<u>2,131,160</u>
Excess of revenues over (under) expenditures	<u>(30,238)</u>	<u>100,861</u>	<u>29,459</u>	<u>100,082</u>
Other Financing Sources (Uses):				
Transfers from other funds	-	-	82,930	82,930
Transfers to other funds	(64,930)	(18,000)	-	(82,930)
Transfers to Component Unit	(10,000)	-	-	(10,000)
Total Other Financing Sources (Uses)	<u>(74,930)</u>	<u>(18,000)</u>	<u>82,930</u>	<u>(10,000)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(105,168)</u>	<u>82,861</u>	<u>112,389</u>	<u>90,082</u>
Fund Balances at beginning of year	691,831	78,506	123,876	894,213
Prior period adjustment	<u>122,349</u>	<u>-</u>	<u>-</u>	<u>122,349</u>
Fund Balances at beginning of year as restated	<u>814,180</u>	<u>78,506</u>	<u>123,876</u>	<u>1,016,562</u>
Fund Balances at end of year	<u>\$ 709,012</u>	<u>\$ 161,367</u>	<u>\$ 236,265</u>	<u>\$ 1,106,644</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES JUNE 30, 2004

Net change in fund balances - total governmental funds	5	90,082
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		85,047
Depreciation expense	(75,201)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		14,236
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.		
Principal payments on long term liabilities	95,000	
Decrease in accrued interest	<u>265</u>	95,265
Internal service funds used by management to charge costs of the City's equipment revolving activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.	(<u>4,786)</u>
Change in net assets of governmental activities	\$	<u><u>204,643</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF DURAND, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 9,055	\$ -	\$ 22,256	\$ 31,311	\$ 199,830
Accounts and interest receivable	79,606	156,449	5,066	241,121	-
Due from other funds	82,776	-	-	82,776	-
Inventories	33,410	7,135	-	40,545	1,825
Prepaid expenses	5,103	-	-	5,103	12,899
Restricted Assets:					
Cash and cash equivalents	-	32,449	-	32,449	-
Investments	-	130,652	-	130,652	-
Total Current Assets	<u>209,950</u>	<u>326,685</u>	<u>27,322</u>	<u>563,957</u>	<u>214,554</u>
Property, Plant and Equipment:					
Property, plant and equipment	4,844,381	7,746,461	-	12,592,842	1,633,583
Less - accumulated depreciation	(1,558,296)	(3,299,206)	-	(4,857,502)	(1,073,571)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>3,286,085</u>	<u>4,449,255</u>	<u>-</u>	<u>7,735,340</u>	<u>560,012</u>
Total Assets	<u>3,496,035</u>	<u>4,775,940</u>	<u>27,322</u>	<u>8,299,297</u>	<u>774,566</u>
LIABILITIES:					
Current Liabilities:					
Accounts payable	25,828	7,328	-	33,156	24,157
Accrued expenses	1,232	2,531	-	3,763	634
Due to other funds	-	82,776	-	82,776	-
Bonds/Notes payable (current portion)	-	65,000	-	65,000	17,644
Customer deposits	10,540	-	-	10,540	-
Total Current Liabilities	<u>37,600</u>	<u>157,635</u>	<u>-</u>	<u>195,235</u>	<u>42,435</u>
Long-Term Liabilities (less current portions):					
Advance from other funds	-	74,481	-	74,481	-
Accrued vacation and sick	749	3,661	-	4,410	2,731
Notes payable (net of current portion)	-	1,210,000	-	1,210,000	36,401
Total Long-Term Liabilities	<u>749</u>	<u>1,288,142</u>	<u>-</u>	<u>1,288,891</u>	<u>39,132</u>
Total Liabilities	<u>38,349</u>	<u>1,445,777</u>	<u>-</u>	<u>1,484,126</u>	<u>81,567</u>
NET ASSETS:					
Investment in capital assets, net of related liabilities	3,286,085	3,099,774	-	6,385,859	505,967
Restricted -					
Debt service	-	163,101	-	163,101	-
Well head protection	15,000	-	-	15,000	-
Unrestricted					
Undesignated	156,601	67,288	27,322	251,211	187,032
Total Net Assets	<u>\$ 3,457,686</u>	<u>\$ 3,330,163</u>	<u>\$ 27,322</u>	<u>\$ 6,815,171</u>	<u>\$ 692,999</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
Operating Revenues:					
Charges for services	\$ 393,398	\$ 618,498	\$ 185,081	\$ 1,196,977	\$ 304,515
Hydrant Rental	10,000	-	-	10,000	-
Other	23,861	23,560	-	47,421	2,121
Total Operating Revenues	<u>427,259</u>	<u>642,058</u>	<u>185,081</u>	<u>1,254,398</u>	<u>306,636</u>
Operating Expenses:					
Personal services	133,702	174,023	-	307,725	52,690
Administrative expenses	74,000	74,000	28,000	176,000	35,000
Supplies and postage	25,219	22,653	1,764	49,636	1,038
Other services	126,987	174,826	149,448	451,261	90,073
Depreciation	100,779	157,138	-	257,917	130,188
Total Operating Expenses	<u>460,687</u>	<u>602,640</u>	<u>179,212</u>	<u>1,242,539</u>	<u>308,989</u>
Operating Income (Loss)	<u>(33,428)</u>	<u>39,418</u>	<u>5,869</u>	<u>11,859</u>	<u>(2,353)</u>
Non-Operating Revenues (Expenses):					
Gain on sale of assets	-	-	-	-	1,555
Interest earned	121	2,560	26	2,707	278
Interest expenses	-	(72,277)	-	(72,277)	(4,266)
Total Non-Operating Revenues	<u>121</u>	<u>(69,717)</u>	<u>26</u>	<u>(69,570)</u>	<u>(2,433)</u>
Net Income (Loss)	<u>(33,307)</u>	<u>(30,299)</u>	<u>5,895</u>	<u>(57,711)</u>	<u>(4,786)</u>
Net Assets at beginning of year	3,486,593	3,356,062	21,427	6,864,082	697,785
Prior period adjustments	<u>4,400</u>	<u>4,400</u>	<u>-</u>	<u>8,800</u>	<u>-</u>
Net Assets at beginning of year as restated	<u>3,490,993</u>	<u>3,360,462</u>	<u>21,427</u>	<u>6,872,882</u>	<u>697,785</u>
Net Assets at end of year	<u>\$ 3,457,686</u>	<u>\$ 3,330,163</u>	<u>\$ 27,322</u>	<u>\$ 6,815,171</u>	<u>\$ 692,999</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 427,774	\$ 647,951	\$ 184,882	\$ 1,260,607	\$ -
Cash receipts from interfund services	-	-	-	-	306,636
Cash payments to suppliers	(172,316)	(228,867)	(151,212)	(552,395)	(72,863)
Cash payments to employees	(209,222)	(246,440)	(28,000)	(483,662)	(87,797)
Net Cash Provided (Used) by Operating Activities	<u>46,236</u>	<u>172,644</u>	<u>5,670</u>	<u>224,550</u>	<u>145,976</u>
Cash Flows From Noncapital Financing Activities:					
Due from/to other funds	(82,776)	(84,355)	-	(167,131)	-
Cash Flows From Capital and Related Financing Activities:					
Bond/Note payments	-	(60,000)	-	(60,000)	(46,492)
Bond Discount	-	13,537	-	13,537	-
Interest Paid on long term debt	-	(72,277)	-	(72,277)	(4,266)
Sale of fixed assets	-	-	-	-	1,555
Acquisition and construction of capital assets	(62,105)	(4,253)	-	(66,358)	(38,411)
Net Cash Used by Capital and Related Financing Activities	<u>(62,105)</u>	<u>(122,993)</u>	<u>-</u>	<u>(185,098)</u>	<u>(87,614)</u>
Cash Flows From Investing Activities:					
Redemption of investments	-	23,423	-	23,423	-
Interest earned	121	2,560	26	2,707	278
Net Cash Provided by Investing Activities	<u>121</u>	<u>25,983</u>	<u>26</u>	<u>26,130</u>	<u>278</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	(98,524)	(8,721)	5,696	(101,549)	58,640
Cash and Cash Equivalents at Beginning of Year	<u>107,579</u>	<u>41,170</u>	<u>16,560</u>	<u>165,309</u>	<u>141,190</u>
Cash and Cash Equivalents at End of Year	<u>\$ 9,055</u>	<u>\$ 32,449</u>	<u>\$ 22,256</u>	<u>\$ 63,760</u>	<u>\$ 199,830</u>
Reconciliation of Net Income (Loss) to:					
Net Cash Provided (Used) by Operating Activities:					
Operating income (loss) for the year	\$ (33,428)	\$ 39,418	\$ 5,869	\$ 11,859	\$ (2,353)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -					
Depreciation	100,779	157,138	-	257,917	130,188
Change in assets and liabilities:					
Receivable	(470)	5,893	(199)	5,224	-
Prepaid and deposits	6,980	8,333	-	15,313	(2,920)
Inventory	(352)	(5,564)	-	(5,916)	(248)
Accounts payable/accrued expenses	(27,273)	(32,574)	-	(59,847)	21,309
Net Cash Provided (Used) By Operating Activities	<u>\$ 46,236</u>	<u>\$ 172,644</u>	<u>\$ 5,670</u>	<u>\$ 224,550</u>	<u>\$ 145,976</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS JUNE 30, 2004

	Other Employee Benefit Trust Fund	Tax Agency Fund
ASSETS:		
Cash and cash equivalents	\$ 56,859	\$ 38,597
Prepaid insurance	28,425	-
Total Assets	<u>\$ 85,284</u>	<u>\$ 38,597</u>
LIABILITIES:		
Accounts payable	8,945	-
Accrued liabilities	40,876	-
Due to other governmental units	-	38,597
Accrued vacation and sick	35,463	-
Total Liabilities	<u>85,284</u>	<u>\$ 38,597</u>
NET ASSETS:	<u>\$ -</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2004

Additions:	
Contributions	<u>\$ 398,124</u>
Deductions:	
Life and disability	10,175
Workman's compensation	17,509
Retirement	91,349
Hospitalization, Eye and dental	280,737
Total Deductions	<u>399,770</u>
Net Decrease	(1,646)
Net assets held in trust for pension benefits	
Beginning of year	<u>1,646</u>
End of year	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The City of Durand, Michigan, was incorporated March 14, 1932, under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governments' operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate for the City.

DISCRETELY PRESENTED COMPONENT UNIT -

CITY OF DURAND DOWNTOWN DEVELOPMENT AUTHORITY (DDA) - The Downtown Development Authority (DDA) was established in 1991. The DDA is organized under P.A. 197, of 1975. The purpose of the DDA is to revitalize and prevent deterioration of the central business district, to encourage historic preservation, authorize the acquisition and disposal of interests in real and personal property, seek out and attract new business interest, authorize the creation and implementation of redevelopment plans in the district, promote economic growth of the district and implement programs to eliminate the further decline of properties and their values in the district.

The City of Durand Downtown Development Authority (DDA) is reported discretely to emphasize that it is legally separate from the City. The DDA Board is comprised of up to thirteen members and one ex-officio member appointed by the Mayor with City Council's approval. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Durand City Council.

RELATED ORGANIZATIONS - The Durand Union Station, Inc. (a non-profit 501(c)(3) corporation) was organized for the development and operation of the Durand Union Station, Inc. Although the building is owned by the City, the financial statements of the Durand Union Station, Inc. are not included in the City's financial statements since the City Council does not appoint board members and the City is not fiscally responsible for the operation.

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

B. Government-wide and fund financial statements --

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component unit* for which the primary governments is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and payable at that time, are recognized as revenue in the year due. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund -- is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund -- is a special revenue fund used to account for Act 51 money and other related revenues restricted for major street maintenance and improvements.

The City reports the following major proprietary funds:

Water Supply System Fund -- is used to account for the treatment and distribution of water to residential and commercial users.

Wastewater Fund -- is used to account for sanitary sewer services provided to the residential and commercial users.

Refuse Services Fund -- is used to account for the operations and activities of garbage collection and recycling for residential customer within the City of Durand.

Additionally, the City reports the following fund types --

Special Revenue Funds -- are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Debt Service Funds -- are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

Capital Projects Fund -- are used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Internal Service Fund – is used to account for the costs of operating and maintaining the City's equipment. Charges are made to other funds based on equipment used.

Other Employee Trust Funds – is used to accumulate resources for insurance, health benefits, and vested vacation and sick for qualified employees.

Tax Agency Trust Fund – is used to account for collection and distribution of taxes. The Agency Fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise and Internal Services Funds are charges to customers for sale and services. Operating expenses from Enterprise and Internal Service Funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value. Investments are certificates of deposit with a maturity of greater than ninety days from purchase date.

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property Tax Receivables –

All delinquent real property taxes, utility charges and special assessments become liens against the related property and are reimbursed by Shiawassee County's Delinquent Tax Revolving Fund. The County will, however, charge back to the City any amounts not collected at the end of three years.

Allowances For Doubtful Accounts Receivable –

The City utilizes the direct write-off method for all funds. Past experience has indicated the write-off of accounts receivable are immaterial and do not warrant the use of a contra account for this allowance.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds, except DPW supplies are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Calendar –

Taxes are levied on July 1 and are payable at that time. The City bills and collects its own property taxes and also collects taxes for the County, intermediate school district, community college, library and local school district. Collections of all taxes other than City taxes and the remittance of them are accounted for in the Tax Collection Fund.

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The City is permitted by state statute to levy taxes of 22 mills for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The City levied 15.5 mills for general governmental purposes plus 3.25 mills for debt service and 1.3997 mills for streets for a total of 20.1497 mills.

Capital Assets -

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure (principally roads and sidewalks) acquired prior to July 1, 2003.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>	<u>Component Unit (DDA)</u>
Buildings and Building Improvements	30-50	-
Machinery and equipment	3-30	-
Vehicles	3-12	-
Streets/Street lights	20-30	30
Water and sewer system	5-50	-
Drains	-	50

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The City has elected to fund vacation and sick time as it is earned. As a result these amounts are appropriately accounted for in the Other Employee Benefit Trust Fund.

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Long-Term Obligations --

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity --

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 -- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information --

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- 1) Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont'd):

- 2) A Public Hearing is conducted to obtain taxpayers' comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution. The budgets are legally enacted at the activity level for the General Fund and total fund level for the Special Revenue Funds and Downtown Development Authority.
- 4) Any amendments to the budget must be approved by City Council.
- 5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue Funds and the Downtown Development Authority.
- 6) Budget appropriations lapse at year end.
- 7) The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.

The general fund budget is approved at the activity level and the total expenditure level for the Special Revenue Funds. Expenditures at these legally adopted levels are a violation of the Budgetary Act. During the year the City incurred expenditures in the General and Special Revenue Fund which was in excess of the amount appropriated as follows:

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
General Fund –			
General Government –			
Treasurer	\$ 114,100	\$ 115,511	\$ 1,411
Public Safety –			
Police Department	563,900	571,730	7,830
Fire Department	89,700	104,102	14,402
Recreation and Cultural –			
Parks and recreation	67,200	85,033	17,833
Transfers Out	50,050	64,930	14,880
Special Revenue –			
Building Inspection Fund	16,800	18,430	1,630

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 3 – DEPOSITS AND INVESTMENTS:

At year end, the carrying amount of the City Reporting Entity's deposits and investments is \$1,231,962 as follows:

	Primary Government	Component Unit	Fiduciary Unit	Reporting Entity
Cash on Hand -				
Petty cash and cash on hand	\$ 250	\$ 50	\$ -	\$ 300
Deposits with Financial Institutions -				
Checking/Money Market	946,638	56,862	95,456	1,098,956
Savings/Certificates of Deposit	<u>132,706</u>	<u>-</u>	<u>-</u>	<u>132,706</u>
Total Deposits	<u>1,079,594</u>	<u>56,912</u>	<u>95,456</u>	<u>1,231,962</u>

Reconciliation To Combined Balance Sheet

Reported as Cash and Cash Equivalents -				
Petty Cash and Cash On Hand	250	50	-	300
Cash in Checking/Money Market	946,638	56,862	95,456	1,098,956
Cash in Saving	<u>907</u>	<u>-</u>	<u>-</u>	<u>907</u>
Total Cash and Cash Equivalents				
Reported on Combined Balance Sheet	<u>947,795</u>	<u>56,912</u>	<u>95,456</u>	<u>1,100,163</u>
Reported as Investments -				
CD's	<u>131,799</u>	<u>-</u>	<u>-</u>	<u>131,799</u>
Grand Total - Combined Balance Sheet	<u>\$ 1,079,594</u>	<u>\$ 56,912</u>	<u>\$ 95,456</u>	<u>\$ 1,231,962</u>

Deposits --

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2004 the bank balance of the City's deposits were \$1,239,800 of which \$285,378 was FDIC insured with the balance \$954,422 uninsured and uncollateralized.

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 – RECEIVABLES:

Receivables in the governmental and business type activities are as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Interest and accounts	\$ 15,811	\$ 241,121
Special Assessments	24,729	-
Intergovernmental – Federal/State	<u>316,506</u>	<u>-</u>
	<u>\$ 357,046</u>	<u>\$ 241,121</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Non-Major Governmental Funds – Special Assessments	<u>\$ 20,021</u>

NOTE 5 – CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2004 was as follows:

	<u>July 1, 2003 Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004 Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 964,129	\$ 39,481	\$ -	\$ 1,003,610
Construction in progress	<u>1,197,135</u>	<u>45,566</u>	<u>1,242,701</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,161,264</u>	<u>85,047</u>	<u>1,242,701</u>	<u>1,003,610</u>
Capital assets, being depreciated:				
Buildings and improvements	2,255,754	1,035,083	-	3,290,837
Infrastructure	-	207,618	-	207,618
Machinery and equipment	867,270	14,571	36,966	854,875
Vehicles	<u>903,428</u>	<u>23,840</u>	<u>21,806</u>	<u>905,462</u>
Total capital assets being depreciated	<u>4,026,452</u>	<u>1,281,112</u>	<u>48,772</u>	<u>5,258,792</u>

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5 - CAPITAL ASSETS - (cont'd):

	July 1, 2003 Balance	Additions	Deletions	June 30, 2004 Balance
Less accumulated depreciation for:				
Buildings and improvements	\$ 777,192	\$ 59,662	\$ -	\$ 836,854
Infrastructure	-	5,574	-	5,574
Machinery and equipment	488,404	72,243	26,966	533,681
Vehicles	552,328	67,910	21,806	598,632
Total accumulated depreciation	1,818,124	205,389	48,772	1,973,741
Total capital assets being depreciated, net	2,208,328	1,167,499	-	3,284,051
Governmental activities capital assets, net	\$ 4,369,592	\$ 1,160,770	\$ 1,242,701	\$ 4,287,661
Business Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 151,400	\$ -	\$ -	\$ 151,400
Construction in progress	325,808	48,430	350,162	24,076
Total capital assets, not being depreciated	477,208	48,430	350,162	175,476
Capital assets, being depreciated:				
Buildings and improvements	3,784,514	-	-	3,784,514
Machinery and equipment	85,795	-	3,878	81,917
Waste Water System	4,088,803	150,085	8,632	4,230,256
Water System	4,093,948	226,731	-	4,320,679
Total capital assets being depreciated	12,053,060	376,816	12,510	12,417,366
Less accumulated depreciation	4,612,095	257,917	12,510	4,857,502
Total Capital assets being depreciated, net	7,440,965	118,899	-	7,559,864
Business activities capital assets, net	\$ 7,918,173	\$ 167,329	\$ 350,162	\$ 7,735,340
Component Unit (DDA):				
Capital assets, being depreciated:				
Street lights	\$ 204,000	\$ -	\$ -	\$ 204,000
Drain improvements	48,000	-	-	48,000
Total capital assets being depreciated	252,000	-	-	252,000
Less accumulated depreciation	62,080	7,760	-	69,840
Total capital assets being depreciated, net	\$ 189,920	\$ 7,760	\$ -	\$ 182,160

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 5 – CAPITAL ASSETS – (cont'd):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 21,466
Public Safety	4,294
Public Works	6,883
Recreation and Cultural	<u>42,558</u>
Total depreciation expense-governmental activities	<u>\$ 75,201</u>
Business-type activities:	
Water Fund	\$ 100,779
Sewer Fund	<u>157,138</u>
Total depreciation expense-business-type activities	<u>\$ 257,917</u>

In addition there was depreciation of \$130,188 in the Equipment Revolving.

NOTE 6 – PAYABLES:

Payables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable/accrued liabilities	\$ 45,996	\$ 33,156
Accrued wages and fringe benefits	<u>11,721</u>	<u>3,763</u>
	<u>\$ 57,717</u>	<u>\$ 36,919</u>

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7 – INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of June 30, 2004:

Due To/From Other Funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Optimist Park	\$ 100,052
Local Street Fund	General Fund	10,788
Street Fund	Local Street	<u>11,046</u>
Total Governmental funds		121,886
Water Supply System	Wastewater	<u>82,776</u>
		<u>\$ 204,662</u>
Advance To/From Other Funds –		
General Fund	Wastewater Fund	<u>\$ 74,481</u>

Transfers From/To Other Funds –

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Local Street Fund	Major Street Fund	\$ 18,000
Building Inspection Fund	General Fund	10,300
Fire Hall Debt Retirement Fund	General Fund	34,120
Industrial Complex Fund	General Fund	1,500
Fire Hall Fund	General Fund	7,010
DUS Centennial Fund	General Fund	10,000
Optimist Park Fund	General Fund	<u>2,000</u>
Total Transfers		<u>\$ 82,930</u>

Transfers To/From Primary Government and Component Unit

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
DDA	General Fund	<u>\$ 10,000</u>

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 8 - LONG-TERM LIABILITIES:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term liabilities (including current portions) for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Funds -					
2002 Limited Tax Bond	\$ 275,000	\$ -	\$ 25,000	\$ 250,000	\$ 25,000
2001 Sewer Refunding Bond	410,000	-	25,000	385,000	25,000
2001 Water Refunding	2,175,000	-	45,000	2,130,000	50,000
Total Governmental Funds	<u>2,860,000</u>	<u>-</u>	<u>95,000</u>	<u>2,765,000</u>	<u>100,000</u>
Internal Service Fund -					
Installment Loans	160,537	-	46,492	54,045	17,644
Compensated Absences	3,096	-	365	2,731	-
Total Internal Service Fund	<u>163,633</u>	<u>-</u>	<u>95,000</u>	<u>2,765,000</u>	<u>17,644</u>
Total Governmental Activities	<u>2,963,633</u>	<u>-</u>	<u>141,357</u>	<u>2,821,776</u>	<u>117,644</u>
<u>Business-Type Activities:</u>					
Enterprise Funds -					
Wastewater Fund -					
Wastewater Treatment					
Bonds, Series 1998	160,000	-	75,000	135,000	30,000
Wastewater Treatment Bonds,					
Series 1999	1,175,000	-	35,000	1,140,000	35,000
Compensated Absences	3,886	-	225	3,661	-
Water Fund -					
Compensated Absences	2,959	-	2,740	79	-
Total Business-Type Activities	<u>1,341,845</u>	<u>-</u>	<u>62,465</u>	<u>1,279,410</u>	<u>65,000</u>
<u>Fiduciary Activities:</u>					
Agency Fund -					
Employee Benefit Fund -					
Compensated Absences	42,821	-	7,358	35,463	-
Total Entity Primary Government	<u>\$ 4,348,329</u>	<u>\$ -</u>	<u>\$ 211,650</u>	<u>\$ 4,136,649</u>	<u>\$ 182,644</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

General Obligation Bonds -

\$450,000, General Obligation Unlimited Tax
Sewer Refunding Bonds, dated July 17, 2001
due in annual installments of \$25,000 to \$50,000
through May 1, 2015, with interest ranging from
4.50% to 5% payable semi-annually

\$ 385,000

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

\$2,255,000, General Obligation Unlimited Tax Water Refunding Bonds, dated July 17, 2001, due in annual installments of \$50,000 to \$285,000 through May 1, 2019, with interest ranging from 3.3% to 5% semi-annually 2,130,000

\$300,000 General Obligation Unlimited Tax Bonds, dated October 7, 2002, due in annual installments of \$25,000 to \$35,000 through May 1, 2012, with interest of 2.25% to 3.85% payable semi-annually 250,000

\$ 2,765,000

Wastewater Treatment Bonds --

\$250,000, Sewage Disposal System Revenue Bonds, dated July 1, 1999, due in annual installments of \$30,000 to \$40,000 through July 1, 2008, with interest of 4.5% payable semi-annually \$ 135,000

\$1,300,000 Sewage Disposal System Revenue Bonds, dated September 23, 1999, due in annual installments of \$35,000 to \$100,000 through May 1, 2018, with interest of 5.30% to 5.65% payable semi-annually 1,140,000

\$ 1,275,000

Installment Loan Fund -

The City has entered into a vendor financing agreement to finance the purchase of a fire truck. The vendor subsequently assigned its interest in the contract to a local bank to which installment payments are made by the City on a quarterly basis. The balance at June 30, 2004, for installment loan of the City reported in the equipment revolving fund was \$54,045.

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the City of Durand, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements in the Water Fund, Wastewater Fund, Equipment Revolving Fund and Employee Benefits Fund in the amounts of \$749, \$3,661, \$2,731 and \$35,463, respectively at June 30, 2004.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2004 (excluding compensated absences) are as follows:

Year Ending June 30	General Obligation Bonds		Wastewater Treatment Plant Bonds		Installment Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 100,000	\$ 126,347	\$ 65,000	\$ 67,795	\$ 17,644	\$ 2,362
2006	115,000	122,848	65,000	64,590	18,570	1,436
2007	125,000	118,707	70,000	61,385	17,831	508
2008	140,000	113,987	75,000	57,955	-	-
2009	150,000	108,477	100,000	54,300	-	-
2010-2014	905,000	435,441	500,000	191,800	-	-
2015-2019	<u>1,230,000</u>	<u>194,000</u>	<u>400,000</u>	<u>55,850</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,765,000</u>	<u>\$ 1,219,807</u>	<u>\$ 1,275,000</u>	<u>\$ 553,675</u>	<u>\$ 54,045</u>	<u>\$ 4,306</u>

COMPONENT UNIT -

The following is a summary of changes in long-term liabilities (including current portion) of the Component Unit for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Downtown Development Authority - Tax Increment Development Bonds	<u>\$ 135,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 115,000</u>

\$225,000 Limited Tax General Obligation Tax
Increment Development Bonds, dated December 7,
1994, due in annual installments increasing from
\$20,000 to \$25,000 through May 1, 2009, with
interest ranging from 5.00% to 7.00% payable semi-
annually

\$ 115,000

The annual debt service requirements to maturity for the long-term obligations outstanding at June 30, 2004 are as follows:

Year Ending June 30	Development Bonds	
	Principal	Interest
2005	\$ 20,000	\$ 6,556
2006	20,000	5,324
2007	25,000	4,076
2008	25,000	2,500
2009	<u>25,000</u>	<u>1,250</u>
	<u>\$115,000</u>	<u>\$ 19,706</u>

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 9 – RETIREMENT PLANS:

Plan Description -

The City of Durand participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate; the rate for 2004 was 7.01%-13.74% of payroll for general government and police/fire departments, respectively. The contribution requirements of plan members and the City are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Costs -

For fiscal 2004, the City's annual pension cost of \$91,349 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending June 30</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2002	\$ 76,797	100 %	\$ -
2003	82,406	100	-
2004	91,349	100	-

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 9 - RETIREMENT PLANS - (cont'd):

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
2001	2,499,090	2,859,366	360,276	87	934,984	39
2002	2,505,308	3,032,269	526,961	83	940,369	56
2003	2,626,610	3,143,303	516,693	84	955,518	54

NOTE 10 - POST RETIREMENT BENEFITS:

In addition to the pension benefits described in Note 9, the City provides Health Care coverage for retired employees with twenty-five (25) years of service and for employees with less than twenty-five (25) years of service, if age sixty (60) has been reached. Employees receive upon retirement and eligibility for a pension from the City, four percent (4%) per year of service, paid toward the above stated coverage. The expenditures for the post-retirement health care benefits are recognized on a pay-as-you-go basis. The expenditures for retirees health insurance amount to \$70,158 for 2004.

NOTE 11 - RISK MANAGEMENT:

General Liability

The City participates in the Michigan Municipal League Liability and Property Pool liability insurance program. In general, the City carries \$10,000,000 of liability coverage and approximately \$16,965,000 of property insurance with a \$1,000 per claim deductible on property and computer equipment, and a \$250 per claim deductible on equipment and mechanical systems.

Workers' Compensation

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

NOTE 12 - CONTINGENCIES:

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2004.

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 13 – FUND EQUITY – RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

Reserved Fund Balance –

Fund Balance has been reserved in the following funds to indicate a portion of fund balance is not available but reserved for a specific purpose at June 30, 2004.

Primary Government –

General Fund –

Advance to Other Funds	\$ 74,481
Prepaid and Deposits	39,641
Park Donation	23,458
Drug Forfeiture	12,721
Playground Development	387
Inventory	483
AFD Unit	<u>6,042</u>
	<u>157,213</u>

Major Street – (Special Revenue Fund)

Inventory	<u>3,429</u>
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Other Governmental Funds –

Local Street Fund	
Inventory	2,780
Fire Hall –	
Debt Service	3,253
Industrial Complex –	
Capital Projects	41
Depot Restoration –	
Capital Projects	8,626
Optimist Park –	
Capital Projects	7
2001 Water Bond-	
Debt service	59,490
2001 Wastewater Treatment Plant Fund –	
Debt Services	<u>16,652</u>

Total Other Governmental Funds 90,849

Total Primary Government \$ 251,491

Component Unit –

Downtown Development Authority –

Friday Night Live	\$ 9,914
Facade	<u>2,101</u>
	<u>\$ 12,015</u>

Reserved Retained Earnings –

Retained Earnings has been reserved in the Water Fund at June 30, 2004 in the amount of \$15,000 to indicate a portion of retained earnings is reserved for well head protection and \$163,101 for Debt Service payments.

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 14 – PRIOR PERIOD ADJUSTMENTS/RESTATEMENTS:

A prior period adjustment of \$122,349 was made to the General Fund to recognize non-exchange state shared revenues collected within 90 days. In addition, a prior period adjustment was made to both water supply system and wastewater enterprise funds in the amount of \$4,400 each to recognize unrecorded payables.

As of and for the year ended June 30, 2004, the City implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*
- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment of GASB No. 33*
- No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
- Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Notes to financial statements;
- Required supplementary information, including certain budgetary schedules.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 14 – PRIOR PERIOD ADJUSTMENTS/RESTATEMENTS – (cont'd):

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to net assets at June 30, 2003:

Government-wide financial statements. Beginning net assets for governmental activities were determined as follows:

	<u>Governmental Activities</u>	<u>Component Unit</u>
Fund balances of general and special revenue funds as of 6/30/03	\$ 894,213	\$ 48,440
Prior period adjustment	<u>122,349</u>	<u>-</u>
Fund balances of general and special revenue funds as (restated) of 6/30/03	1,016,562	48,440
Add: capital assets	4,543,772	189,920
Add: deferred revenue	5,785	-
Less: accumulated depreciation on capital assets	(825,969)	-
Less: bonds/notes payable	(2,860,000)	135,000
Less: accrued interest on bond/notes payable	(10,794)	(643)
Add internal service net assets	<u>697,785</u>	<u>-</u>
Net Assets at 6/30/03	<u>\$ 2,567,141</u>	<u>\$ 102,712</u>

NOTE 15 – SUBSEQUENT EVENTS:

On September 2, 2004, the City of Durand entered into an installment purchase agreement to finance a purchase of real estate in amount of \$490,000. The note is payable over fifteen years with interest rate of 4.25%.

On October 12, 2004, the City of Durand issued \$400,000 long-term general obligation bond for water and sewer capital improvements. The bond principal payments are due on the first of October over seven years from 2005 to 2012. The interest rates vary from 3.3% to 4.15% and the interest is payable semi-annually.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DURAND, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 1,007,300	\$ 1,007,300	\$ 992,994	\$(14,306)
Licenses and permits	28,400	29,900	29,871	(29)
Intergovernmental -				
Federal/State	608,000	568,750	534,805	(33,945)
Charges for services	20,100	19,500	21,432	1,932
Fines and forfeits	10,000	12,500	12,572	72
Interest and rents	20,000	17,500	17,595	95
Other	-	-	44,176	44,176
	<u>1,693,800</u>	<u>1,655,450</u>	<u>1,653,445</u>	<u>(2,005)</u>
Expenditures:				
General Government -				
Legislative	15,400	15,400	11,936	3,464
City Manager	93,650	92,650	90,222	2,428
Elections	8,600	4,700	3,723	977
Assessor	19,400	22,400	22,316	84
City Clerk	162,300	162,300	154,795	7,505
Treasurer	115,100	114,100	115,511	(1,411)
General administration	282,900	309,700	307,412	2,288
Planning	30,700	16,600	16,460	140
	<u>728,050</u>	<u>737,850</u>	<u>722,375</u>	<u>15,475</u>
Less: Reimbursement from other funds	<u>(226,000)</u>	<u>(226,000)</u>	<u>(226,000)</u>	<u>-</u>
Total General Government	<u>502,050</u>	<u>511,850</u>	<u>496,375</u>	<u>15,475</u>
Public Safety -				
Police department	582,300	563,900	571,730	(7,830)
Fire department	106,000	89,700	104,102	(14,402)
	<u>688,300</u>	<u>653,600</u>	<u>675,832</u>	<u>(22,232)</u>
Public Works -				
Director of public works	69,300	68,800	66,390	2,410
Department of public works	387,200	369,950	360,053	9,897
	<u>456,500</u>	<u>438,750</u>	<u>426,443</u>	<u>12,307</u>
Recreational and Cultural-				
Parks and recreation	62,800	67,200	85,033	(17,833)
Total Expenditures	<u>1,709,650</u>	<u>1,671,400</u>	<u>1,683,683</u>	<u>(12,283)</u>
Excess of revenues over (under) expenditures	<u>(15,850)</u>	<u>(15,950)</u>	<u>(30,238)</u>	<u>(14,288)</u>

Continued

CITY OF DURAND, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUNDFOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing (Uses):				
Transfer Out-				
Building	\$ -	\$ (8,800)	\$ (10,300)	\$ (1,500)
Industrial Complex	-	(100)	(1,500)	(1,400)
Fire Hall Debt	(34,150)	(34,150)	(34,120)	30
DUS Centennial Commission	-	-	(10,000)	(10,000)
Fire Hall Debt	-	(7,000)	(7,010)	(10)
Optimist Park	-	-	(2,000)	(2,000)
	(34,150)	(50,050)	(64,930)	(14,880)
Transfer to Component Unit-				
Downtown Development Authority	-	(10,000)	(10,000)	-
	(34,150)	(60,050)	(74,930)	(14,880)
Excess of revenues over (under) expenditures and other uses	(50,000)	(76,000)	(105,168)	(29,168)
Fund Balance at beginning of year	691,831	691,831	691,831	-
Prior period adjustment	-	-	122,349	122,349
Fund Balance at beginning of year restated	691,831	691,831	814,180	122,349
Fund Balance at end of year	\$ 691,831	\$ 691,831	\$ 936,529	\$ 244,698

Concluded

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental -				
State	\$ 174,300	\$ 174,300	\$ 180,942	\$ 6,642
Interest	300	300	141	(159)
Other	-	-	40	40
	<u>174,600</u>	<u>174,600</u>	<u>181,123</u>	<u>6,523</u>
Expenditures:				
Public Works -				
Administration	6,000	6,000	6,000	-
Maintenance	118,700	118,700	52,319	66,381
Winter Maintenance	31,900	31,900	21,943	9,957
	<u>156,600</u>	<u>156,600</u>	<u>80,262</u>	<u>76,338</u>
 Excess of revenues over expenditures	 18,000	 18,000	 100,861	 82,861
 Other Financing Uses:				
Transfers out -				
Local Street Fund	(18,000)	(18,000)	(18,000)	-
 Excess of revenues and other sources over expenditures and other uses	 -	 -	 82,861	 82,861
 Fund Balance at beginning of year	 <u>78,506</u>	 <u>78,506</u>	 <u>78,506</u>	 <u>-</u>
 Fund Balance (Deficit) at end of year	 <u>\$ 78,506</u>	 <u>\$ 78,506</u>	 <u>\$ 161,367</u>	 <u>\$ 82,861</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF DURAND, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004**

	Special Revenue Funds				
	Local Street	Street	Sidewalks & Curbs	Building Inspection	DUS Centennial Commission
ASSETS					
Cash and cash equivalents	\$ -	\$ 92,224	\$ 18,696	\$ 27	\$ 7,557
Special Assessments Receivable	-	15,576	9,153	-	-
Due from other governmental units - Federal/State	12,106	-	-	-	-
Due from other funds	10,788	11,046	-	-	-
Inventory	2,780	-	-	-	-
Total Assets	\$ 25,674	\$ 118,846	\$ 27,849	\$ 27	\$ 7,557
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 500
Accrued liabilities	190	-	-	-	-
Due to other funds	11,046	-	-	-	-
Due to other governmental units	-	-	-	-	-
Deferred revenue	-	10,868	9,153	-	-
Total Liabilities	11,236	10,868	9,153	-	500
Fund Balance:					
Reserved -					
Inventory	2,780	-	-	-	-
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Unreserved -					
Undesignated	11,658	107,978	18,696	27	7,057
Total Fund Balance	14,438	107,978	18,696	27	7,057
Total Liabilities and Fund Balance	\$ 25,674	\$ 118,846	\$ 27,849	\$ 27	\$ 7,557

Debt Service Funds			Capital Project Funds				
2001							
Fire Hall	Wastewater Treatment Plant	2001 Water Bond	Industrial Complex	Depot Restoration	Optimist Park	Fire Hall	Total
\$ 3,253	\$ 16,652	\$ 59,490	\$ 41	\$ 12,247	\$ -	\$ -	\$ 210,187
-	-	-	-	-	-	-	24,729
-	-	-	-	-	100,059	-	112,165
-	-	-	-	-	-	-	21,834
-	-	-	-	-	-	-	2,780
<u>\$ 3,253</u>	<u>\$ 16,652</u>	<u>\$ 59,490</u>	<u>\$ 41</u>	<u>\$ 12,247</u>	<u>\$ 100,059</u>	<u>\$ -</u>	<u>\$ 371,695</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500
-	-	-	-	-	-	-	190
-	-	-	-	-	100,052	-	111,098
-	-	-	-	3,621	-	-	3,621
-	-	-	-	-	-	-	20,021
-	-	-	-	3,621	100,052	-	135,430
-	-	-	-	-	-	-	2,780
-	-	-	41	8,626	7	-	8,674
3,253	16,652	59,490	-	-	-	-	79,395
-	-	-	-	-	-	-	145,416
<u>3,253</u>	<u>16,652</u>	<u>59,490</u>	<u>41</u>	<u>8,626</u>	<u>7</u>	<u>-</u>	<u>236,265</u>
<u>\$ 3,253</u>	<u>\$ 16,652</u>	<u>\$ 59,490</u>	<u>\$ 41</u>	<u>\$ 12,247</u>	<u>\$ 100,059</u>	<u>\$ -</u>	<u>\$ 371,695</u>

CITY OF DURAND, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004**

	Special Revenue Funds				
	Local Street	Street	Sidewalks & Curbs	Building Inspection	DUS Centennial Commission
Revenues:					
Taxes	\$ -	\$ 85,820	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	8,157	-
Intergovernmental-					
Federal/State	82,021	-	-	-	-
Interest	6	170	19	-	-
Special assessment	-	5,694	9,940	-	-
Other	-	-	-	-	-
Total Revenues	<u>82,027</u>	<u>91,684</u>	<u>9,959</u>	<u>8,157</u>	<u>-</u>
Expenditures:					
Current -					
Public Safety	-	-	-	18,430	-
Public Works	89,003	-	15,766	-	-
Park and Recreation	-	-	-	-	2,943
Capital Outlay	-	-	-	-	-
Debt Service					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>89,003</u>	<u>-</u>	<u>15,766</u>	<u>18,430</u>	<u>2,943</u>
Excess of revenues over (under) expenditures	(6,976)	91,684	(5,807)	(10,273)	(2,943)
Other Financing Sources:					
Transfers In	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>10,300</u>	<u>10,000</u>
Net Change in Fund Balance	11,024	91,684	(5,807)	27	7,057
Fund Balances at beginning of year	<u>3,414</u>	<u>16,294</u>	<u>24,503</u>	<u>-</u>	<u>-</u>
Fund Balances at end of year	<u>\$ 14,438</u>	<u>\$ 107,978</u>	<u>\$ 18,696</u>	<u>\$ 27</u>	<u>\$ 7,057</u>

Debt Service Funds			Capital Project Funds				Total
Fire Hall	2001 Wastewater Treatment Plant	2001 Water Bond	Industrial Complex	Depot Restoration	Optimist Park	Fire Hall	
\$ -	\$ 46,012	\$ 153,450	\$ -	\$ -	\$ -	\$ -	\$ 285,282
-	-	-	-	-	-	-	8,157
-	-	-	-	-	-	-	82,021
-	191	506	-	-	-	-	892
-	-	-	-	-	-	-	15,634
-	-	-	-	-	4,688	-	4,688
-	46,203	153,956	-	-	4,688	-	396,674
-	-	-	-	-	-	-	18,430
-	-	-	-	-	-	-	104,769
-	-	-	-	-	-	-	2,943
-	-	-	1,477	-	6,892	7,359	15,728
25,000	25,000	45,000	-	-	-	-	95,000
9,120	19,350	101,875	-	-	-	-	130,345
34,120	44,350	146,875	1,477	-	6,892	7,359	367,215
(34,120)	1,853	7,081	(1,477)	-	(2,204)	(7,359)	29,459
34,120	-	-	1,500	-	2,000	7,010	82,930
-	1,853	7,081	23	-	(204)	(349)	112,389
3,253	14,799	52,409	18	8,626	211	349	123,876
\$ 3,253	\$ 16,652	\$ 59,490	\$ 41	\$ 8,626	\$ 7	\$ -	\$ 236,265

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

LOCAL STREET FUND

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental -				
State	\$ 70,600	\$ 65,700	\$ 82,021	\$ 16,321
Interest	-	100	6	(94)
	<u>70,600</u>	<u>65,800</u>	<u>82,027</u>	<u>16,227</u>
Expenditures:				
Public Works -				
Administration	6,000	6,000	6,000	-
Maintenance	60,300	75,000	70,582	4,418
Winter Maintenance	<u>22,800</u>	<u>22,800</u>	<u>12,421</u>	<u>10,379</u>
	<u>89,100</u>	<u>103,800</u>	<u>89,003</u>	<u>14,797</u>
Excess of revenues over (under) expenditures	(18,500)	(38,000)	(6,976)	31,024
Other Financing Sources:				
Transfers in -				
Major Street Fund	<u>18,500</u>	<u>38,000</u>	<u>18,000</u>	<u>(20,000)</u>
Excess of revenues and other sources over expenditures	-	-	11,024	11,024
Fund Balance at beginning of year	<u>3,414</u>	<u>3,414</u>	<u>3,414</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 3,414</u>	<u>\$ 3,414</u>	<u>\$ 14,438</u>	<u>\$ 11,024</u>

Continued

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

STREET FUND

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 87,000	\$ 87,000	\$ 85,820	\$ (1,180)
Special assessments	6,400	6,400	5,694	(706)
Interest	300	300	170	(130)
	<u>93,700</u>	<u>93,700</u>	<u>91,684</u>	<u>(2,016)</u>
Expenditures:				
Public Works -				
Maintenance	<u>93,700</u>	<u>93,700</u>	<u>-</u>	<u>93,700</u>
Excess of revenues over expenditures	-	-	91,684	91,684
Fund Balance at beginning of year	<u>16,294</u>	<u>16,294</u>	<u>16,294</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 16,294</u>	<u>\$ 16,294</u>	<u>\$ 107,978</u>	<u>\$ 91,684</u>

SIDEWALKS & CURBS FUND

Revenues:				
Interest	\$ -	\$ -	\$ 19	\$ 19
Special Assessments	<u>24,400</u>	<u>24,400</u>	<u>9,940</u>	<u>(14,460)</u>
	<u>24,400</u>	<u>24,400</u>	<u>9,959</u>	<u>(14,441)</u>
Expenditures:				
Public Works -				
Contracted Services	<u>24,400</u>	<u>24,400</u>	<u>15,766</u>	<u>8,634</u>
Excess of revenues under expenditures	-	-	(5,807)	(5,807)
Fund Balance at beginning of year	<u>24,503</u>	<u>24,503</u>	<u>24,503</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 24,503</u>	<u>\$ 24,503</u>	<u>\$ 18,696</u>	<u>\$ (5,807)</u>

Continued

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

BUILDING INSPECTION FUND

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Licenses and permits -				
Building permits	<u>\$ 16,800</u>	<u>\$ 8,000</u>	<u>\$ 8,157</u>	<u>\$ 157</u>
Expenditures:				
Public Safety -				
Administration	1,500	1,500	3,000	(1,500)
Building inspection	<u>15,300</u>	<u>15,300</u>	<u>15,430</u>	<u>(130)</u>
	<u>16,800</u>	<u>16,800</u>	<u>18,430</u>	<u>(1,630)</u>
Excess of revenues under expenditures	-	(8,800)	(10,273)	(1,473)
Other Financing Sources :				
Transfers in -	<u>-</u>	<u>8,800</u>	<u>10,300</u>	<u>1,500</u>
Excess of revenues and other sources over expenditures	-	-	27	27
Fund Balance at beginning of year	<u>3</u>	<u>3</u>	<u>3</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 30</u>	<u>\$ 27</u>

DUS CENTENNIAL COMMISSION

Expenditures:				
Park and Recreation -				
Supplies	-	100	39	61
Printing	<u>-</u>	<u>4,900</u>	<u>2,904</u>	<u>1,996</u>
	<u>-</u>	<u>5,000</u>	<u>2,943</u>	<u>2,057</u>
Other Financing Sources (Uses):				
Transfers in -	<u>-</u>	<u>5,000</u>	<u>10,000</u>	<u>5,000</u>
Excess of revenues and other sources over expenditures	-	-	7,057	2,943
Fund Balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,057</u>	<u>\$ 2,943</u>

CITY OF DURAND, MICHIGAN

**AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>
TAX COLLECTION FUND				
Assets:				
Cash	<u>\$ 5,222</u>	<u>\$ 2,156,602</u>	<u>\$ 2,123,227</u>	<u>\$ 38,597</u>
Liabilities:				
Due to other governmental units	\$ 4,227	\$ 4,477,869	\$ 4,443,499	\$ 38,597
Due to other funds	-	12,166	12,166	-
Undistributed taxes	<u>995</u>	<u>-</u>	<u>995</u>	<u>-</u>
	<u>\$ 5,222</u>	<u>\$ 4,490,035</u>	<u>\$ 4,456,660</u>	<u>\$ 38,597</u>
FRINGE BENEFITS FUND				
Assets:				
Cash	\$ 67,891	\$ 1,637,283	\$ 1,648,315	\$ 56,859
Prepaid insurance	<u>25,629</u>	<u>28,424</u>	<u>25,628</u>	<u>28,425</u>
	<u>\$ 93,520</u>	<u>\$ 1,665,707</u>	<u>\$ 1,673,943</u>	<u>\$ 85,284</u>
Liabilities:				
Accounts Payable	\$ 6,447	\$ 432,686	\$ 430,188	\$ 8,945
Accrued Liabilities	44,252	1,204,790	1,215,524	33,518
Accrued vacation and sick	<u>42,821</u>	<u>-</u>	<u>-</u>	<u>42,821</u>
	<u>\$ 93,520</u>	<u>\$ 1,637,476</u>	<u>\$ 1,645,712</u>	<u>\$ 85,284</u>

CITY OF DURAND, MICHIGAN

AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
TOTAL ALL AGENCY FUNDS				
Assets:				
Cash	\$ 73,113	\$ 3,793,885	\$ 3,771,542	\$ 95,456
Prepaid insurance	<u>25,629</u>	<u>28,424</u>	<u>25,628</u>	<u>28,425</u>
	<u>\$ 98,742</u>	<u>\$ 3,822,309</u>	<u>\$ 3,797,170</u>	<u>\$ 123,881</u>
Liabilities:				
Accounts payable	\$ 6,447	\$ 432,686	\$ 430,188	\$ 8,945
Accrued liabilities	44,252	1,204,790	1,215,524	33,518
Due to other governmental units -	5,222	4,477,869	4,444,494	38,597
Due to other funds	-	12,166	12,166	-
Accrued vacation and sick	<u>42,821</u>	<u>-</u>	<u>-</u>	<u>42,821</u>
	<u>\$ 98,742</u>	<u>\$ 6,127,511</u>	<u>\$ 6,102,372</u>	<u>\$ 123,881</u>

COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY

CITY OF DURAND, MICHIGAN
BALANCE SHEET/STATEMENT OF NET ASSETS
DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2004

ASSETS	Governmental Activities	GASB 34 Adjustments	Statement of Net Assets
Cash and cash equivalents	\$ 56,912	\$ -	\$ 56,912
Accounts receivable	22	-	22
Capital Assets (net of accumulated depreciation)			
Assets being depreciated	-	182,160	182,160
Total Assets	<u>\$ 56,934</u>	<u>\$ 182,160</u>	<u>\$ 239,094</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 998	\$ -	\$ 998
Accrued interest	-	538	538
Due to other governmental units -			
State	1,069	-	1,069
Local	4,942	-	4,942
Non-current liabilities			
Due within one year	-	20,000	20,000
Due in more than one year	-	95,000	95,000
Total Liabilities	<u>7,009</u>	<u>115,538</u>	<u>122,547</u>
Fund Balance:			
Investment in capital assets, net of related liabilities	-	67,160	67,160
Reserved/Reserved -			
Friday night live	9,914	-	9,914
Facade	2,101	-	2,101
Unreserved	37,910	(538)	37,372
	<u>49,925</u>	<u>66,622</u>	<u>116,547</u>
Total Liabilities and Fund Balance	<u>\$ 56,934</u>	<u>\$ 182,160</u>	<u>\$ 239,094</u>

CITY OF DURAND, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2004**

Fund Balances - total governmental funds	5	49,925
Amounts reported for Component unit activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets		252,000
Accumulated depreciation	(69,840)
Long - term liabilities, including installments payable, are not due and payable in the current period and therefore are not reported in the funds.		
Loan installments payable	(115,000)
Accrued interest	(538)
Net Assets of Downtown Development Authority activities	<u>\$</u>	<u>116,547</u>

CITY OF DURAND, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES
DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEARS ENDED JUNE 30, 2004**

	<u>Actual</u>	<u>GASB 34 Adjustments</u>	<u>Total</u>
Revenues:			
Taxes	\$ 39,633	\$ -	\$ 39,633
Intergovernmental sources			
State	18,559	-	18,559
Interest	256	-	256
Other	6,695	-	6,695
	<u>65,143</u>	<u>-</u>	<u>65,143</u>
Expenditures:			
Current -			
Public Works	45,883	7,760	53,643
Debt Service-			
Principal	20,000	(20,000)	-
Interest and fiscal charges	7,775	(110)	7,665
	<u>73,658</u>	<u>(12,350)</u>	<u>61,308</u>
Excess of revenues over (under) expenditures	(8,515)	12,350	3,835
Other Financing Sources:			
Transfers from primary government -			
General Fund	10,000	-	10,000
Excess of revenues and other sources over (under) expenditures	1,485	12,350	13,835
Fund Balance at beginning of year as restated	<u>48,440</u>	<u>54,272</u>	<u>102,712</u>
Fund Balance at end of year	<u>\$ 49,925</u>	<u>\$ 66,622</u>	<u>\$ 116,547</u>

CITY OF DURAND, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2004

Net change in fund balances - governmental funds	\$ 1,485
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(7,760)
Repayment of the principal of long-term debt consumes the current financial resources of the component fund, however has no effect on net assets	
Principal payment on long term liability	20,000
Increase in accrued interest	<u>110</u>
Change in net assets of Downtown Development Authority activities	<u>\$ 13,835</u>

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEARS ENDED JUNE 30, 2004**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 40,700	\$ 39,700	\$ 39,633	\$ 67
Intergovernmental sources				
State	-	18,300	18,559	(259)
Interest	500	200	256	(56)
Other	-	-	6,693	(6,693)
	<u>41,200</u>	<u>58,200</u>	<u>65,143</u>	<u>(6,943)</u>
Expenditures:				
Current -				
Public Works	13,400	40,400	45,883	5,483
Debt Service-				
Principal	20,000	20,000	20,000	-
Interest and fiscal charges	7,800	7,800	7,775	(25)
	<u>41,200</u>	<u>68,200</u>	<u>73,658</u>	<u>\$,458</u>
Excess of revenues over (under) expenditures	-	(10,000)	(8,515)	(12,401)
Other Financing Sources:				
Transfers from primary government -				
General Fund	-	10,000	10,000	-
Excess of revenues and other sources over (under) expenditures	-	-	1,485	(12,401)
Fund Balance at beginning of year	<u>48,440</u>	<u>48,440</u>	<u>48,440</u>	<u>48,440</u>
Fund Balance at end of year	<u>\$ 48,440</u>	<u>\$ 48,440</u>	<u>\$ 49,925</u>	<u>\$ 36,039</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and
Members of the City Council
City of Durand, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City of Durand, Michigan's basic financial statements and have issued our report thereon dated September 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Durand, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Durand, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Durand, Michigan, in a separate letter dated October 13, 2004.

This report is intended solely for the information and use of management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stewart, Levenson & Whipple
Certified Public Accountants

October 13, 2004

To the Honorable Mayor and
Members of the City Council
City of Durand, Michigan

As you know, we have recently completed our audit of the basic financial statements of the City of Durand, Michigan as of and for the year ended June 30, 2004. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the City's recordkeeping system. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the *Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated October 13, 2004, the conditions described below are not considered reportable conditions or material weaknesses.

The City should review and document the administration charges between the various funds.

The City currently charges an administration fee from the general fund to various other funds of the City for services provided by the general fund. This is a very common and acceptable practice. However, it is our understanding that the method of determining the charges has not been reviewed and updated in a number of years.

We recommend that these charges be reviewed and documentations maintained on why, and the amount that is being charged.

The fringe benefits for the Department of Public Works should be allocated to the fund and activity where the salaries are charged.

Currently all payroll taxes and fringe benefits for the Department of Public Work employees are charged to the Department of Public Works in the general fund. However, the DPW employees work in various funds and activities. Although their wages are charged to the fund and activity where they work, the fringe benefits are not allocated. As a result the City is not reporting the true cost of providing certain services.

We recommend that the City derive a method of allocating the fringes that would correlate with the salaries that are allocated.

The assessment levied for Ambulance Services should be reported as a Special Revenue Fund as revenues of the City.

During the prior year's audit it came to our attention that the City assesses a \$10 fee to each City taxpayer for the purpose of providing ambulance services. Currently the assessment is collected in the City's tax fund and passed through to the company providing the service, Durand Vernon Ambulance. However, because the City is the governmental unit assessing the fee and then contracting with Durand Vernon Ambulance to provide ambulance services, the assessment should be collected and recorded in a separate Special Revenue Fund. The payment for the service would then be recorded as expenditure, contracted ambulance services.

We recommend that a new Special Revenue Fund be established to account for this activity. This fund will require a budget be adopted in accordance with PA 621.

The City should consider whether the Durand Union Station activities should be included as a component unit of the City.

Currently the Durand Union Station operates as a separate nonprofit corporation to account for the operations of the Durand Union Station. It is our understanding that the nonprofit was organized to "support the rehabilitation, development, and maintenance of the Grand Trunk Union Station and for the purpose of establishing the State of Michigan Railroad Museum and Information Center". However, based on the nature and significance of their relationship to the City, the Michigan Department of Treasury and Governmental Accounting Standards may require that it be included as a component unit of the City. Statement No. 39 issued by the Governmental Accounting Standards Board titled "Determining Whether Certain Organizations are Component Units" became effective for periods beginning after June 15, 2003 and outlines certain instances where legally separate nonprofit corporations should be reported as a component unit of the governmental unit.

The criteria utilized to determine whether a legally separate, tax exempt organization should be reported as a component unit of a reporting entity includes:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Since the City owns the building, has in the past provided financial support, and the identity of the City is so interrelated with the Depot, we believe that the Durand Union Station would be one of these entities.

We recommend that you review the operations of the Durand Union Station and the new requirements to determine if you agree that it should be reported as a component unit.

The payroll bank account should be reconciled to the General Ledger on a monthly basis.

During our audit it was noted that the payroll bank account was not reconciled to the General Ledger for the past few months of the fiscal year. To increase controls we recommend that all bank accounts be reconciled on a timely basis.

The due from the State of Michigan for Optimist Park grant should be billed and collected.

As of June 30, 2004 the City had approximately \$100,000 coming from the State of Michigan for the Optimist Park project. However, this is the same amount that was due as of June 30, 2003. Based on discussions with management it is our understanding that the necessary paperwork has not been submitted as of the date of our audit. We recommend that the necessary paperwork be submitted as soon as possible and that someone follow-up to make sure the amount is collected.

The City should consider processing its own payroll.

At the current time the City contracts with an outside company to have its payroll processed. Although this may appear to be the most efficient method of preparing payroll, in many cases by the time City employees accumulate and enters all the information necessary for the company to process the payroll, review the payroll when it is returned, etc., it may be just as easy to prepare the payroll yourself. Also once the company processes payroll for the City it must then be manually entered into the City's general ledger. This is not to mention the cost of approximately \$9,000 per year. The one thing that the City would have to start doing if you prepared your own payroll is all the quarterly and annual reporting, which at first can be somewhat complicated and confusing.

We recommend that the City consider the advantages and disadvantages of processing the City's payroll.

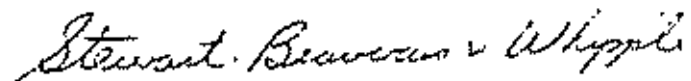
The City should consider integrating its cash receipting module with the general ledger.

Currently, the City's cash receipting module is not integrated with City's general ledger. As a result cash receipts must be manually entered into the general ledger. This results in numerous journal entries throughout the month. By integrating the receipts module all cash receipts could be immediately enter by the person receiving payments, whether they are for taxes, utility billings, or miscellaneous type charges. We recommend that the City consider integrating the cash receipting module with the general ledger.

This report is intended solely for the information and use of management, the City of Council, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, appearing to read "Stewart Beaver".

September 25, 2003